0 21149
Q-35856

PROCESSED BY
MAY 15 1992

92 2275 S 14L+

92 14 4506

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

RECD S.E.C.
MAY 14 1992
137

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934,

For the quarterly period ended March 31, 1992 or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-15995

MICROAGE, INC.
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	86-0321346 (I. R. S. Employer Identification No.)
2308 South 55th Street Tempe, AZ (Address of principal executive offices)	85282 (Zip Code)

Registrant's telephone number, including area code: (602) 968-3168

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

The number of shares of the registrant's Common Stock (par value $.01 per share) outstanding at May 5, 1992 was 5,786,164.

INDEX

MICROAGE, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated balance sheets -- March 31, 1992 and September 30, 1991

Consolidated statements of income -- Three months ended March 31, 1992 and March 31, 1991; six months ended March 31, 1992 and March 31, 1991

Consolidated statements of cash flows -- Six months ended March 31, 1992 and March 31, 1991

Notes to consolidated financial statements -- March 31, 1992

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II. OTHER INFORMATION

Item 2. Changes in Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

MICROAGE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

Assets

	March 31, 1992 (Unaudited)	September 30, 1991
Current assets:		
Cash and cash equivalents	$ 4,707	$ 14,691
Accounts and notes receivable, net	44,322	34,759
Inventory, net	119,179	90,801
Other	676	913
Total current assets	168,884	141,164
Property and equipment	13,763	14,038
Intangible assets	2,248	2,675
Other	3,974	3,866
Total assets	$ 188,869	$ 161,743

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable	$ 116,647	$ 111,012
Accrued liabilities	3,436	3,504
Current portion of long-term debt	1,558	1,575
Other	1,317	1,147
Total current liabilities	122,958	117,238
Note payable to bank	1,500	--
Long-term debt	9,952	10,963
Other long-term liabilities	--	45
Stockholders' equity:		
Preferred stock, par value $1.00 per share;		
Shares authorized: 5,000,000		
Issued and outstanding: none	--	--
Common stock, par value $.01 per share;		
Shares authorized: 20,000,000		
Issued: March 31, 1992-5,917,697		
September 30, 1991-4,370,154	59	44
Additional paid-in capital	38,495	20,485
Retained earnings	20,277	17,733
Loan to ESOT	(2,879)	(3,126)
Treasury stock, at cost;		
Shares: March 31, 1992-133,291		
September 30, 1991-146,381	(1,493)	(1,639)
Total stockholders' equity	54,459	33,497
Total liabilities and stockholders' equity	$ 188,869	$ 161,743

The accompanying notes are an integral part of these financial statements.

MICROAGE, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	March 31, 1992	March 31, 1991	March 31, 1992	March 31, 1991
Revenue	$ 232,473	$ 189,013	$ 478,696	$ 381,510
Cost of sales	217,378	176,007	448,017	354,063
Gross profit	15,095	13,006	30,679	27,447
Selling, general and administrative expenses	11,274	10,796	22,934	21,044
Freight expense	1,452	1,365	2,962	2,956
Operating income	2,369	845	4,783	3,447
Investment and other income, net	180	97	386	427
Interest expense	461	532	875	743
Income before income taxes	2,088	410	4,294	3,131
Provision for income taxes	851	184	1,750	1,270
Net income	$ 1,237	$ 226	$ 2,544	$ 1,861
Net income per common share	$ 0.25	$ 0.05	$ 0.55	$ 0.43
Weighted average common and common equivalent shares outstanding	4,984	4,362	4,657	4,335

The accompanying notes are an integral part of these financial statements.

MICROAGE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Increase (Decrease) in Cash and Cash Equivalents
(in thousands)

	Six Months Ended	
	March 31, 1992	March 31, 1991
Cash flows from operating activities:		
Net income	$ 2,544	$ 1,861
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,362	1,838
Provision for losses on accounts and notes receivable	306	492
Other	73	73
Changes in assets and liabilities net of business acquisitions:		
Accounts and notes receivable	(9,869)	(3,352)
Inventory	(28,378)	(14,123)
Other current assets	237	258
Other assets	(108)	(738)
Accounts payable	5,635	5,983
Accrued liabilities	(68)	(892)
Other liabilities	125	389
Net cash used in operating activities	(27,111)	(8,211)
Cash flows from investing activities:		
Purchases of property and equipment	(1,633)	(3,819)
Increases in intangible assets	--	(213)
Purchases of businesses	--	(607)
Other investing activities	--	(448)
Net cash used in investing activities	(1,633)	(5,087)
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	1,500	14,300
Amounts received from ESOT	247	76
Proceeds from issuance of stock, net of issuance costs	18,068	6
Proceeds from issuance of debt	54	2,016
Principal payments on debt	(1,109)	(392)
Net cash provided by financing activities	18,760	16,006
Net increase (decrease) in cash and cash equivalents	(9,984)	2,708
Cash and cash equivalents at beginning of period	14,691	2,458
Cash and cash equivalents at end of period	$ 4,707	$ 5,166

The accompanying notes are an integral part of these financial statements.

Exhibit Index on Page 13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of MicroAge, Inc. (the Company) do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of results for the periods have been included. Operating results for the six month period ended March 31, 1992 are not necessarily indicative of the results that may be expected for the year ending September 30, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10–K for the year ended September 30, 1991.

NOTE B – RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

NOTE C – STOCKHOLDERS' EQUITY

On March 5, 1992, the Company completed a public offering of 1,5^0,000 shares of common stock. The proceeds from the sale, net of issuance costs, were approximately $17,901,000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $0.5 million to $11.3 million for the three months ended March 31, 1992 as compared to the three months ended March 31, 1991, primarily due to costs associated with increased sales volume. As a percentage of revenue, selling, general and administrative expenses decreased from 5.7% for the three months ended March 31, 1991 to 4.8% for the three months ended March 31, 1992.

Six Months Ended March 31, 1992 Versus Six Months Ended March 31, 1991

Total Revenue. Total revenue increased $97.2 million, or 25.5%, to $478.7 million for the six months ended March 31, 1992 as compared to the six months ended March 31, 1991. This revenue increase includes a $55.3 million increase in sales to Large Account Services clients, a $25.1 million increase in sales to domestic franchisees and an $8.1 million increase in sales to affiliated resellers. These revenue increases were due to increased sales to and through existing franchise locations and affiliated resellers and an increase in the number of locations and reseller agreements between March 31, 1991 and March 31, 1992. Same-location sales (including Large Account Services sales) increased 14.7% between the two periods.

Gross Margin Percentage. The Company's gross margin percentage decreased to 6.4% for the six months ended March 31, 1992 from 7.2% for the six months ended March 31, 1991. The decrease was primarily due to a shift in revenue mix toward lower margin sales coupled with increased competitive pricing pressures. While higher margin sales to franchisees and affiliated resellers and revenue through the Company-owned locations increased between March 31, 1991 and March 31, 1992, they declined as a percentage of total revenue. Lower margin sales to Large Account Services clients increased at a greater rate and comprised 22.0% of the Company's total revenue for the six months ended March 31, 1992 versus 13.1% of revenue for the six months ended March 31, 1991. The Company also experienced a decline in margins on product sales through franchise and affiliated reseller programs and to Large Account clients due to increased competitive pressures and changes in vendors' pricing policies. Additionally, margins declined in Company-owned locations due to increased competitive pressure.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $1.9 million to $22.9 million for the six months ended March 31, 1992 as compared to the six months ended March 31, 1991. This increase was primarily due to costs associated with increased sales volume and to additional expenses related to improving the Company's distribution capacity and capabilities. As a percentage of revenue, selling, general and administrative expenses decreased from 5.5% for the six months ended March 31, 1991 to 4.8% for the six months ended March 31, 1992.

Liquidity and Capital Resources

At March 31, 1992, working capital totaled $45.9 million compared to $23.9 million at September 30, 1991, primarily due to the completion of a public offering of common stock discussed below. The annualized number of days sales in average accounts receivable was 17 days for the quarter ended March 31, 1992 versus 15 days for the quarter ended September 30, 1991. Inventory increased $28.4 million to $119.2 million at March 31, 1992 from September 30, 1991. The Company's annualized inventory turnover averaged 7.9 times for the quarter ended March 31, 1992 compared to 8.9 times for the quarter ended September 30, 1991. The increase in inventory to $119.2 million and the decrease in the turnover ratio are primarily due to the Company taking advantage of quarter-end purchasing opportunities.

The Company maintains a $30 million secured bank credit facility. It also maintains a $50 million inventory financing facility with IBM Credit Corporation (IBMCC), a $40 million inventory financing facility with ITT Commercial Finance Corp. (ITT) and a $10 million inventory financing facility with AT&T Commercial Finance Corporation. These facilities are secured by the Company's assets. Of an aggregate of $130 million in facilities, $76.3 million was unused at March 31, 1992. Excluding the bank facility and a term loan under the ITT facility, indebtedness under these facilities appears as accounts payable in the accompanying financial statements.

On April 20, 1992, the Company requested termination of the AT&T facility because changes in such vendor's program enable the Company to purchase AT&T products using the ITT inventory financing facility.

The bank arrangement and the inventory financing facilities contain certain restrictive covenants including working capital requirements, ratios of debt to tangible net worth, current assets to liabilities and interest coverage, a net income requirement and a limitation on capital expenditures. The Company may be unable to utilize fully the $76.3 million unused at March 31, 1992 to the extent so doing would cause the Company to violate any restrictive covenants or exceed borrowing base limitations. The unavailability of a significant portion of, or the loss of, these financing facilities could have a material adverse effect on the Company.

The Company offers credit terms to certain qualifying end-user clients under the Company's Large Account Services program. The Company has offered credit terms to selected Network locations and is offering these terms to additional qualifying Network locations. As these credit terms are offered to additional Network locations and Large Account Services clients, the Company's receivable and credit risks, as well as its capital needs, will increase.

On March 5, 1992, the Company completed a public offering of 1,550,000 shares of common stock, of which 1,500,000 shares were offered by the Company and 50,000 by certain stockholders. Net proceeds to the Company of $17.9 million were used to reduce working capital borrowings, increase the exercise of early payment discount opportunities offered by certain vendors and to support the Company's continued revenue growth. Based on current operating levels, the Company believes that the offering proceeds, its inventory financing facilities, unused trade credit, bank credit facility and funds generated from operations will be sufficient to meet the Company's cash requirements for the near term. However, in light of the availability of financing at favorable terms, the Company is continuing to explore various financing alternatives, including expanded credit facilities and private placement of debt for increasing available capital, to maximize flexibility and to provide for long-term growth. There can be no assurance that the Company will be able to obtain expanded facilities or other additional financing.

Inflation, Seasonality and Other Considerations

The Company believes that inflation has generally not had a material impact on its operations, as the costs of computers and related products have generally decreased due to technological innovations and economies of scale realized from the mass production of such products.

Although the Company's financial performance has not exhibited significant seasonality in the past, the computer industry in general tends to follow a seasonal pattern with peaks tending to occur near the end of the calendar year, due primarily to special vendor promotions and year-end business purchases.

The Company receives funds from certain vendors based on the Company's purchases or sales of that vendor's products. These funds are earned by the performance of specific marketing programs or other objectives determined by the vendor and are applied against cost of sales or operating expenses, depending on the type of program. There can be no assurance that these programs will be continued by the vendors.

The Company's future results could be affected by conditions in the computer industry and the general economy such as a recessionary period, increased energy costs or fluctuations in interest rates.

PART II. OTHER INFORMATION

Item 2. Changes in Securities

See Item 4 hereof for information relating to adoption by stockholders of amendments to the Company's Restated Certificate of Incorporation, as amended (the "Restated Certificate") to: (i) classify the Board of Directors to provide for staggered terms for directors; (ii) provide that directors may be removed only for cause and only by a supermajority vote of stockholders; (iii) provide that action by written consent of stockholders may be taken only by unanimous consent of all stockholders entitled to vote on such action; (iv) amend certain provisions of the article of the Restated Certificate fixing the number of directors and including a supermajority vote applicable to amendment of such article and certain of the Company's By-Laws; (v) provide that amendments to certain provisions of the Restated Certificate and stockholder amendments to the Company's By-Laws may be made only by a supermajority vote of the stockholders; (vi) amend provisions of the Restated Certificate with respect to personal liability and indemnification of officers and directors of the Company; and (vii) amend and restate in full the Restated Certificate.

The above-described amendment to classify the Board of Directors became effective on February 26, 1992. All of the other above-described amendments became effective on March 2, 1992 upon filing of a restatement in full of the Company's Restated Certificate.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of stockholders (the Meeting) was held on February 26, 1992. The Meeting was adjourned and reconvened on February 28, 1992 for the sole purposes of closing the polls and announcing the vote of the stockholders approving a proposal to amend certain provisions of the article of the Restated Certificate which fixed the number of directors and provided for a supermajority vote to amend such provision and certain provisions of the Company's By-Laws.

(b) Not applicable.

(c) The following matters were voted upon at the Meeting:

(i) An amendment to the Restated Certificate to classify the Board of Directors of the Company into three classes was approved by a vote of 2,651,540 shares; 488,115 shares voted against the amendment and 842,503 shares abstained. The following six individuals were elected at the meeting to serve for the following terms: Messrs. William H. Mallender and Keiichi Eguchi whose terms expire at the 1993 annual meeting; Messrs. Alan P. Hald and Steven G. Mihaylo whose terms expire at the 1994 annual meeting; and Messrs. Jeffrey D. McKeever and Fred Israel whose terms expire at the 1995 annual meeting.

(ii) An amendment to the Restated Certificate to provide that directors may be removed only for cause and only by a supermajority vote of the stockholders was approved by a vote of 2,424,909 shares; 715,501 shares voted against the amendment and 841,748 shares abstained.

(iii) An amendment to the Restated Certificate to provide that action by written consent of stockholders may be taken only by unanimous consent of all stockholders entitled to vote on such action was approved by a vote of 2,463,124 shares; 682,441 shares voted against the amendment and 836,593 shares abstained.

(iv) An amendment to the Restated Certificate to amend certain provisions of the article thereof fixing the number of directors and including a supermajority vote applicable to amendment of such article and certain of the Company's By-Laws was approved by a vote of 3,254,118 shares; 76,214 shares voted against the amendment and 651,826 shares abstained.

(v) An amendment to the Restated Certificate to provide that amendments to certain provisions thereof and stockholders' amendments to the By-Laws of the Company may be made only by a supermajority vote of the stockholders was approved by a vote of 2,425,090 shares; 704,844 shares voted against the amendment and 852,224 shares abstained.

(vi) An amendment to the Restated Certificate with respect to personal liability and indemnification of officers and directors of the Company was approved by a vote of 3,487,609 shares; 309,773 shares voted against the amendment and 184,776 shares abstained.

(vii) A proposal to restate in full the Restated Certificate was approved by a vote of 3,126,056 shares; 367,773 shares voted against the amendment and 488,329 shares abstained.

(viii) An amendment to the 1989 Stock Option Plan to increase the number of shares available for issuance thereunder from 300,000 to 800,000 was approved by a vote of 2,712,886 shares; 571,025 shares voted against the amendment and 698,247 shares abstained.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11.1	Primary EPS Detail Calculation
Exhibit 11.2	Fully Diluted EPS Detail Calculation

(b) Reports on Form 8-K. Pursuant to Item 5 of Form 8-K, the Company filed a report on Form 8-K dated March 2, 1992 reporting a restatement in full of the Restated Certificate including certain amendments to the Restated Certificate (see Item 4, above) and the By-Laws of the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICROAGE, INC.
(Registrant)

Date: May 13, 1992

Jeffry D. McKeever, Chairman of the Board and Chief Executive Officer

Date: May 13, 1992

John H. Andrews, Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Page No.*
11.1	Primary EPS Detail Calculation	14
11.2	Fully Diluted EPS Detail Calculation	15

* Included only in manually signed original.

EXHIBIT 11.1

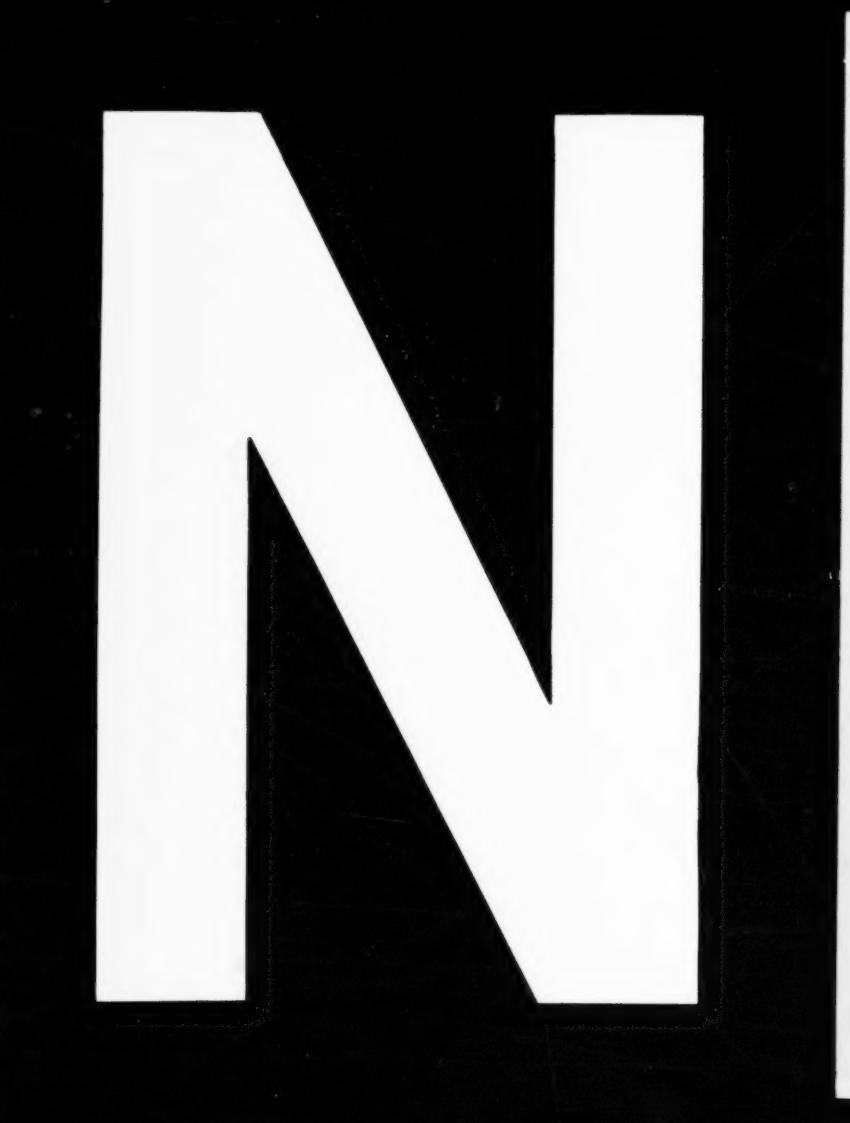
MICROAGE, INC.
PRIMARY EPS DETAIL CALCULATION

	Six Months Ended	
	March 31, 1992	March 31, 1991
Common stock		
Common shares	4,503,971	4,190,064
Common stock equivalents		
Warrants and options	152,939	145,342
Total weighted average common and common equivalent shares outstanding	4,656,910	4,335,406
Net income available for EPS	$ 2,544,000	$ 1,861,000
Primary EPS total	$ 0.55	$ 0.43

EXHIBIT 11.2

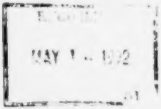
MICROAGE, INC.
FULLY DILUTED EPS DETAIL CALCULATION

	Six Months Ended	
	March 31, 1992	March 31, 1991
Income available for primary EPS	$ 2,544,000	$ 1,861,000
Shares: per primary EPS	4,656,910	4,335,406
additional shares issuable	29,225	16
	4,686,135	4,335,422
EPS: Net income	$ 0.54	$ 0.43



06750
Q-35869

N
92-2275 19Q+



SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d)

OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED MARCH 31, 1992
COMMISSION FILE NO. 0-9877

MSI ELECTRONICS INC.
(Exact name of Registrant as specified in its charter)

Delaware	11-1969354
(State or other jurisdiction of incorporation or organizaion)	(I.R.S. Employer Identification Number)
34-32 57th Street, Woodside, N.Y. (Address of principal executive offices)	11377 (Zip Code)

Registrant's telephone number, including area code:
(718) 672-6500

Indicate by mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Ecxhange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report) and (2) has been subject to such filing requirements for the past 90 days: YES X NO____

Number of shares outstanding of each class of common stock:

Common Stock, $.03 par value	1,125,623 Shares outstanding at May 12, 1992

PROCESSED BY
10-10-V
MAY 15 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

L39

MSI ELECTRONICS INC.

Form 10-Q Quarterly Report
For the Six Months
Ended March 31, 1992

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

This report is being filed for the following group of companies:

MSI Electronics Inc. and Subsidiaries:

MSI Semiconductor Corp.	(1)
Elyon Electronics Ltd.	(2)
Xadax Inc.	(1)

---

(1) 100% owned
(2) 98% owned English corporation

MSI ELECTRONICS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	As At	
	March 31, 1992 Unaudited	September 30, 1991
Current assets		
Cash in banks	$ 215,544	$ 209,768
Temporary cash investments	2,077,911	2,398,895
Receivables	190,308	292,329
Inventories (Note B)	448,786	400,711
Marketable securities	170,710	170,710
Accrued interest receivable	13,150	14,416
Prepaid expenses	18,867	44,869
Total current assets	3,135,276	3,531,698
Property, plant and equipment	878,820	872,875
Less accumulated depreciation	811,615	796,128
Total property plant and equipment	67,205	76,747
Other assets	3,650	3,650
Total assets	$3,206,131	$3,612,095

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Accounts payable	$ 149,928	$ 356,799
Taxes payable	4,945	12,416
Total current liabilities	154,873	369,215
Shareholders' equity		
Common stock – par value $.03		
Authorized – 5,000,000 shares		
Issued–1,418,448 shares	42,554	42,554
Capital in excess of par value	420,201	420,201
Retained earnings	3,032,951	3,169,536
Currency translation adjustments	28,252	28,252
	3,523,958	3,660,543
Less treasury stock at cost	472,700	417,663
Total shareholders' equity	3,051,258	3,242,880
Total liabilities and shareholders' equity	$3,206,131	$3,612,095

MSI ELECTRONICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

UNAUDITED

FOR THE SIX MONTHS ENDED MARCH 31.

	1992	1991
Net sales	$ 560,250	$ 770,260
Cost of goods sold	457,104	635,961
Gross income on sales	103,146	134,299
Selling and administrative expenses	300,833	307,953
Net operating (loss)	(197,687)	(173,654)
Investment income	64,580	92,246
Net (loss) before income taxes	(133,107)	(81,408)
Provision for income taxes	3,478	6,912
Net (loss) for period	$(136,585)	$(88,320)
Net (loss) per share of common stock		
Based on the weighted average number of shares outstanding (1,154,167 in 1992 and 1,166,501 in 1991)	$(.12)	$(.08)

MSI ELECTRONICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

UNAUDITED

FOR THE THREE MONTHS ENDED MARCH 31,

	1992	1991
Net sales	$ 293,115	$ 405,036
Cost of goods sold	215,156	418,420
Gross income on sales	77,959	(13,384)
Selling and administrative expenses	144,913	155,196
Net operating (loss)	(66,954)	(168,580)
Investment income	30,832	46,109
Net (loss) before income taxes	(36,122)	(122,471)
Provision for income taxes	1,998	2,997
Net (loss) for period	$(38,120)	$(125,468)
Net (loss) per share of common stock		
Based on the weighted average number of shares outstanding (1,154,167 in 1992 and 1,166,501 in 1991)	$(.03)	$(.11)

MSI ELECTRONICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

FOR THE SIX MONTHS ENDED MARCH 31,

	1992	1991
Net (loss)	$(136,585)	$(88,320)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,487	18,415
Gain on sale of fixed assets	-0-	(9,702)
Change in assets and liabilities:		
Decrease in receivables	103,287	20,268
(Increase) decrease in inventories	(48,075)	43,760
(Increase) decrease in prepaid expenses	26,002	(7,448)
(Decrease) in accounts payable	(206,871)	(78,578)
(Decrease) in taxes payable	(7,471)	(39,425)
Net cash used by operating activities	(254,226)	(141,030)
Investing activities:		
Purchase of property, plant and equipment	(5,945)	(29,195)
Proceeds from sale of property, plant and equipment	-0-	9,800
Net cash used by investing activities	(5,945)	(19,395)
Financing activities:		
Purchase of treasury stock	(55,037)	(16,813)
Net cash used by financing activities	(55,037)	(16,813)
Net (decrease) in cash and cash equivalents	(315,208)	(177,238)
Cash and cash equivalents at October 1,	2,608,663	2,531,966
Cash and cash equivalents at March 31,	$ 2,293,455	$ 2,354,728

MSI ELECTRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

MARCH 31, 1992

Note A – Basis of Presentation:

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month and three month periods ended March 31, 1992 are not necessarily indicative of the results that may be expected for the year ended September 30, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended September 30, 1991.

Note B – Inventories:

Valuation of inventories was based on the gross profit percentage method determined from the physical inventory of September 30, 1991 and consisted of the following:

	March 31,	
	1992	1991
Finished goods	$122,470	$ 88,661
Work in Process	10,794	16,504
Raw Materials	315,522	277,330
Total	$448,786	$382,495

Condition and Results of Operations

Results of Operations

Net sales for the six months ended March 31, 1992, 1991 and 1990 were $560,250, $770,260 and $563,021. The decrease of $210,010 in 1992 from 1991 was due principally to the general decrease in sales of semiconductors to defense related industries and to the decrease in sales of a proprietary line of semiconductor assemblies. The increase of $207,239 (36.8%) in 1991 over 1990 was due principally to the increased sales of the above proprietary line of semiconductor assemblies.

Selling and administrative expenses were $300,833 in the six months ended March 31, 1992, $307,953 in the 1991 period and $345,711 in the 1990 period. The decrease of $37,758 (10.9%) in 1991 from 1990 was due to a general decrease of expenditures during this period.

Investment income for the six months ended March 31 1992 was $64,580 compared to $92,246 and $196,530 for the 1991 and 1990 periods. The decrease of $27,666 (30.0%) in the 1992 period was due to a general decrease in interest rates. The decrease of $104,284 (53.1%) in the 1991 period was due to a general decrease in interest rates, a decrease in the availability of investment funds principally as a result of the adverse affect of the losses in the prior period and the non-recurring profit of $75,326 from the sales of marketable securities in the 1990 period.

Income tax of $3,478 in the March 31, 1992 period showed a decrease of $3,434 from $6,912 in the 1991 period. In the 1991 period as compared to the 1990 period there was a decrease of $1,474.

Net loss for the six months ended March 31, 1992 increased by $48,265 from a loss in 1991 of $88,320 to a loss of $136,585 in 1992. Comparing 1991 and 1990, there was an increase in loss of $24,706 from $63,614 to $88,320. Both increases in losses resulted from a decrease in sales and investment income.

For the third quarter ending June 30, 1992 sales are estimated to be 50% of sales for the comparable 1991 quarter.

The Company organized a wholly owned subsidiary on January 7, 1992 called Xadax Inc. This Company has been formed to develop and market software based on the Ada language, principally to contractors doing business with the Department of Defense.

Liquidity and Capital Resources

Of its total assets at March 31, 1992, the Company had 76.9% or an aggregate of $2,464,165 consisting of $2,293,455 in cash and in temporary investments including certificates of deposit, money market funds and $170,710 in marketable securities. The major application of the Registrant's liquid position is to take advantage of opportunities to expand its business into other areas of high technology, either by acquisition, investment or expansion from within. New outside opportunities are continually being sought. In addition, new product developments within the Registrant are being continued in diodes, in semiconductor measurement instruments and software development. While the increased emphasis on broadening the Registrant's product lines and sales base will be financed in the foreseeable future from cash and liquid investments on hand, the Company believes other sources of financing , including public offerings, are available should there be increased demands for cash.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: Woodside, New York
May 14, 1992

MSI ELECTRONICS INC.

By Albert Lederman
Albert Lederman, President
Chief Executive Officer
and Chief Financial Officer